

The Changing Face of Rural Development Assistance in USDA

USDA's rural development program has changed significantly as a result of the National Performance Review, the Government Performance and Results Act of 1993, USDA's reorganization in 1994, and major farm legislation of 1996. The new Rural Development Mission Area more efficiently uses State and local input and coordinates new initiatives and reforms to target more funds to pressing problems.

While not alone among Federal Departments in having responsibility for assisting rural areas, USDA provides a significant amount of aid, and its assistance tends to be more targeted to rural areas than that of other Federal Departments. Moreover, USDA is, by law, charged with leading and coordinating Federal rural development assistance. Over time, the ways in which USDA has assisted rural America have changed. Earlier in this century, "rural development" was roughly equal to "agricultural development." No more. Today, rural America's diversity of resources and needs requires a much more holistic response. Likewise, the public's expectations of what government should do, how it should do it, and how much it should cost also require a different response. Together, changes in the rural and governmental contexts are causing USDA to evolve its philosophy and organization for delivering rural assistance.

Forces of Change

USDA Reorganization. Following the recommendations from Vice President Al Gore's National Performance Review, Mike Espy—then Secretary of Agriculture—established four key principles for USDA's reorganization: (1) improve the delivery of service to customers, (2) remain consistent with mandated missions, (3) make a better place for employees, and (4) save the taxpayers money. These principles were embedded in the subsequent reorganization, established by the Federal Crop Insurance Reform and Agriculture Reorganization Act. Signed into law in October 1994, this act restructured USDA and established seven "mission areas" based on the Department's primary missions. The act also realigned many programs and reduced the number of USDA agencies. Agencies such as the Farmers Home Administration, the Rural Electrification Administration, the Rural Development Administration, and the Agricultural Cooperative Service were renamed and reorganized as part of the new Rural Development Mission Area.

The act also affects the field presence of USDA rural development agencies. Since the 1930's, USDA has had field staff in every rural county, usually with separate offices for credit, conservation, and farm programs. Consistent with the reorganization, some 1,300 county offices have been closed or moved for consolidation. The goal is to have 2,550 consolidated "service centers" (colocations of the Farm Service Agency, the Natural Resources Conservation Service, and Rural Development) by 2002 (all years in this article are fiscal years, unless otherwise indicated).

Following the reorganization, staffs in USDA's rural development agencies have been significantly reduced. As of 1998, the staff levels for the programs making up USDA's three main rural development agencies—the Rural Utilities Service (RUS), the Rural Housing Service (RHS), and the Rural Business-Cooperative Service (RBS)—will have decreased by about 24 percent overall from their 1993 ceilings, with most of the decline coming from the Rural Housing Service, which accounts for about 85 percent of the combined staff of these agencies.

1996 Farm Legislation. Title VII—Rural Development—of the Federal Agriculture Improvement and Reform Act of 1996 authorized several significant changes to the rural development efforts of USDA. The most significant are described below.

First, it created the Rural Community Advancement Program (RCAP). The objectives of RCAP identified in the legislation are to "promote strategic development activities and collaborative efforts...to maximize the impact of Federal assistance," optimize resources, provide assistance in a way that recognizes the complexity of rural needs, design unique responses to address unique needs, and adopt flexible and innovative approaches to resolving rural problems. The legislation also gives priority to the smallest and poorest communities. The Rural Development Mission Area is supporting these objectives by

stressing leveraging, targeting, outreach, and partnerships in the mission area's strategic plan and in the State/tribal plans.

RCAP allows State Rural Development Directors to mix, to a degree, the funding streams for community facilities, utilities, and business and cooperative development, to provide a more flexible package of assistance aimed at meeting local needs that vary over time and across the country. For the programs covered by RCAP, State Directors may transfer up to 25 percent from one account to another, as long as the amount transferred nationally does not exceed 10 percent of total RCAP funds allocated. In the past, these programs were funded on an individual basis and unused money could not be transferred from one program to another. The rationale for the more flexible approach is to allow funds that were traditionally bound by "stove-pipe" allocations to be used more effectively.

Under this program, Rural Development State Directors are required to prepare individual State strategic plans that outline the use of USDA Rural Development resources in the State as well as plans for each Federally recognized Indian tribe in the State. In preparing the plans, Directors are required to actively seek out and involve public and private institutions and individuals. The objective of the planning is to develop a 5-year strategic plan and include a reasonable set of strategies and actions for the effective delivery of USDA rural development resources, singularly and in partnership with others. The plan is to focus on improving the physical, social and economic conditions of the rural and small towns in the State. Priority is to be given to communities and areas of greatest need. Assistance provided under RCAP must be consistent with the plans.

Second, the act created the Fund for Rural America, which provides a significant amount of funds (\$100 million annually for 3 years initially) for a wide range of rural development assistance and research. The fund is divided into thirds, with one-third going respectively to rural development programs, rural development research, and rural development programs or research at the Secretary's discretion. The first of the 3 years' worth of funding became available January 1, 1997, minus \$20 million in rescissions that provided supplemental disaster aid. The next two \$100 million infusions are scheduled to be received on October 1, 1998, and 1999, respectively. (See article on General Assistance.)

Finally, the act requires the Secretary of Agriculture to establish and chair a Rural Development Interagency Working Group for the purpose of establishing rural policy, coordinating assistance, and evaluating performance of Federal rural assistance. The group will meet in fiscal year 1998.

Government Performance and Results Act. The Government Performance and Results Act of 1993 (GPRA) is another force affecting USDA's rural assistance efforts. The act, which requires agencies to measure and account for the results of their efforts, is the stimulus for USDA's new strategic plan and various reinventing efforts throughout the Department, including rural development efforts.

The New Face of Rural Development

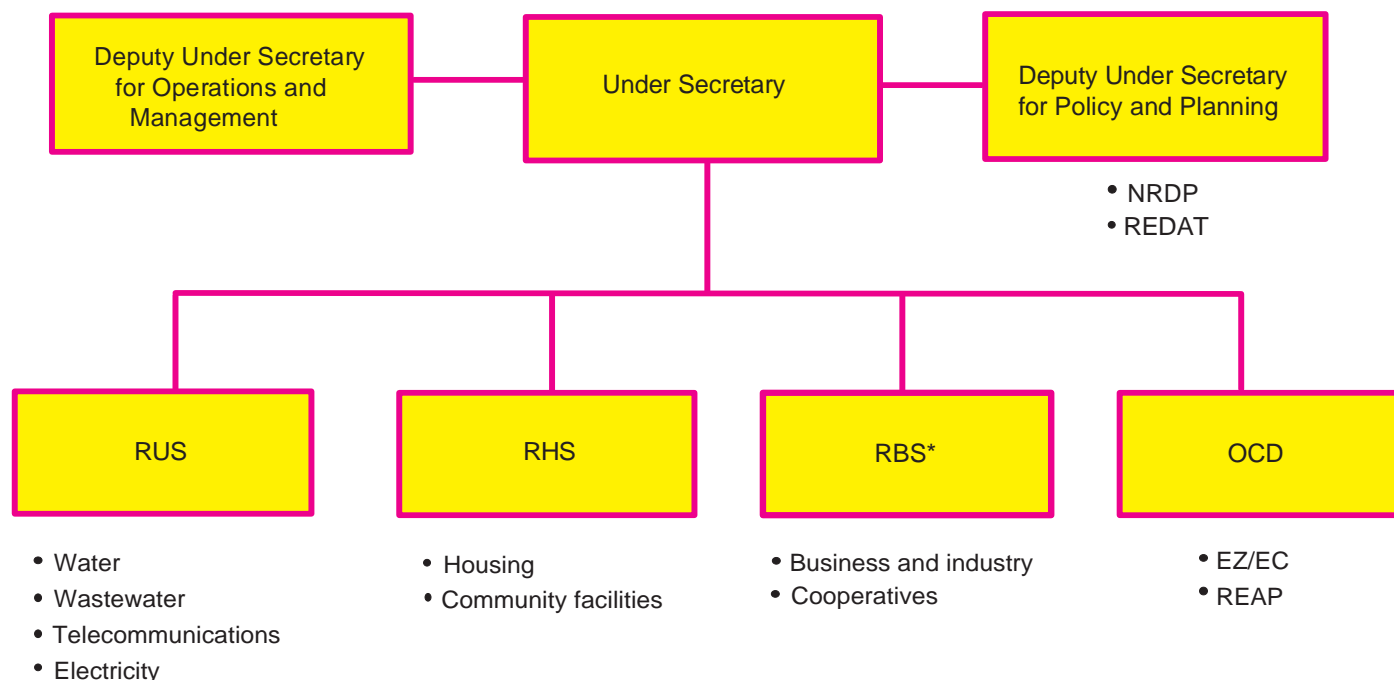
The Rural Development Mission Area's goal, as stated in its mission statement, is to "Enhance the ability of rural communities to develop, to grow, and to improve their quality of life by targeting financial and technical resources in areas of greatest need with activities of greatest potential." In addition to the three main agencies within the Rural Development Mission Area, there is a newly created Office of Community Development (fig. 1).

Rural Utilities Service. The Rural Utilities Service (RUS) administers electric, telecommunications, and water and waste programs formerly operated by the Rural Electrification Administration and the Rural Development Administration. These programs provide technical assistance, grants, loans, and loan guarantees for the infrastructure necessary to improve the quality of life and promote economic development in rural America. (A detailed list of these and other USDA rural development programs is provided at the end

Figure 1

Organization chart for the Rural Development Mission Area

The three main program agencies (RUS, RHS, and RBS) are complemented by activities of the two Deputy Under Secretaries and the new Office of Community Development



Note: RUS = Rural Utilities Service, RHS = Rural Housing Service, RBS = Rural Business-Cooperative Service, OCD = Office of Community Development, EZ/EC = Empowerment Zones/Enterprise Communities, REAP = Rural Economic Area Partnership, NRDP = National Rural Development Partnership, REDAT = Rural Economic Development Action Team.

*Not shown is the Alternative Agricultural Research and Commercialization Corporation, which is essentially an autonomous entity.

Source: Rural Development Mission Area.

of this article.) The RUS also coordinates the Water 2000 initiative, which has a goal of providing clean, safe, and affordable drinking water to all rural homes by the year 2000.

Rural Housing Service. The Rural Housing Service (RHS) administers community facilities and housing programs formerly operated by the Rural Development Administration and the Farmers Home Administration. These programs help finance new or improved housing for over 65,000 moderate-, low-, and very-low-income families each year. The programs also help rural communities finance, construct, enlarge, or improve fire stations, libraries, hospitals, medical clinics, industrial parks, and other community facilities. The RHS also plays a key role in the National Partnership for Homeownership initiative.

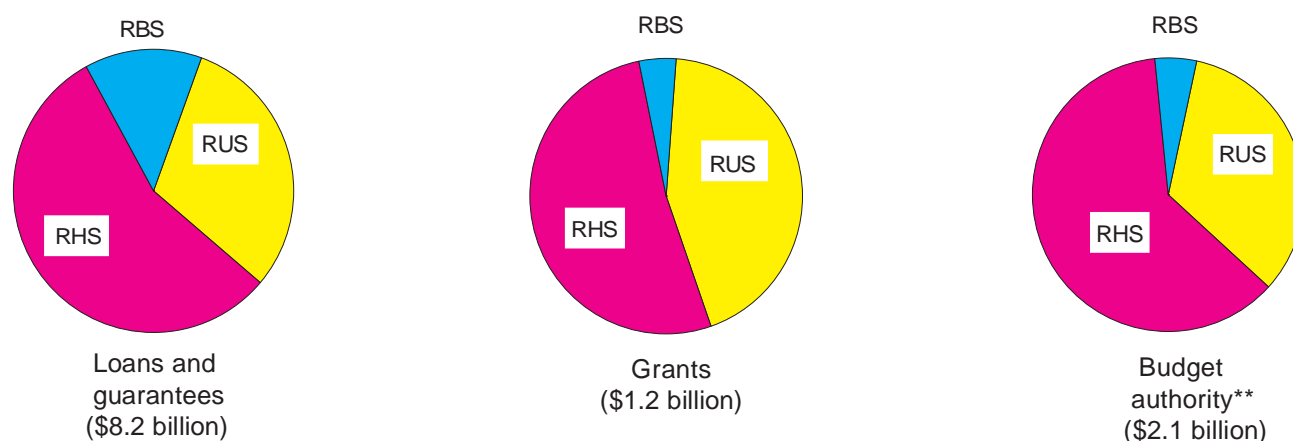
Rural Business-Cooperative Service. The Rural Business-Cooperative Service (RBS) administers programs, formerly administered by the Rural Development Administration, the Rural Electrification Administration, and the Agricultural Cooperative Service, that provide credit and assistance to rural businesses and cooperatives. The RBS partners with the private sector and community-based organizations to provide financial assistance and business planning. It also provides technical assistance to rural businesses and cooperatives and helps fund projects that create or preserve jobs in rural areas.

In 1998, the budget authority for these three agencies' (RUS, RHS, and RBS) programs, combined, was \$1.6 billion. However, because many of their programs provide loans and guarantees, the total program assistance level is estimated to be about \$9.9 billion. The Rural Housing Service accounts for the majority of the Rural Development budget (fig. 2).

Figure 2

Rural Development Mission Area budget by agency and type of assistance, fiscal year 1998*

The Rural Housing Service accounts for the majority of the rural development budget



Note: RUS = Rural Utilities Service, RHS = Rural Housing Service, RBS = Rural Business-Cooperative Service.

*Excludes the Alternative Agricultural Research and Commercialization Corporation.

**Includes \$509 million in salaries and expenses of RUS, RBS, and RHS.

Source: 1999 Budget Summary, U.S. Department of Agriculture.

Office of Community Development. The mission of the Office of Community Development (OCD) is “to create self-sustaining, long-term economic development in areas of pervasive poverty, unemployment, and general distress, and to demonstrate how distressed communities can achieve self-sufficiency through innovative and comprehensive strategic plans developed and implemented by alliances among private, public, and nonprofit entities.” OCD’s primary activity is administering USDA’s portion of the Empowerment Zone/Enterprise Community program. The EZ/EC program, a presidential initiative, provides technical assistance, block grants, tax credits, and priority consideration for Federal programs to specially designated high-poverty communities. OCD also works with Champion Communities (communities that were eligible and applied for EZ/EC designation but were not selected) to assist them in implementing their strategic plans that were developed when applying for designation.

In addition, OCD oversees the Rural Economic Area Partnership (REAP), an initiative assisting distressed multicounty areas in the Northern Great Plains, and several other initiatives that help communities in distressed regions, including the Southwest Border and the Lower Mississippi Delta initiatives.

Other Activities and Initiatives

In addition to these agencies and programs, the Rural Development Mission Area carries out other important activities and initiatives.

Rural Economic Development Action Team. The Rural Economic Development Action Team (REDAT) comprises representatives from the Rural Development; Research, Education, and Economics; and Natural Resources and Conservation mission areas of USDA. Its purpose is to coordinate activities and improve the effectiveness of the Department’s rural assistance.

National Rural Development Partnership. The goals of the National Rural Development Partnership (NRDP), begun in 1990 by presidential initiative, are to improve the coordination of rural development programs, to serve as a catalyst in promoting rural interests, and to be a broker among the multisector interests and institutions involved in effecting rural development projects. The partnership works through State Rural Development Councils (established now in 38 States), which are composed of Federal,

State, tribal, and local government officials and private sector representatives. The National Rural Development Council is composed of representatives of Federal agencies and non-profit organizations and serves as an advisory board to the partnership, providing national expertise and assistance with regulations, legislation, program advocacy, national linkage, and coordination.

Northwest Timber Adjustment Initiative. This initiative provides funding and technical assistance to timber-dependent communities in the Pacific Northwest. It is part of a larger presidential initiative that coordinates efforts across Federal agencies and targets communities affected by changes in Federal land use regulations.

Water 2000. This initiative targets basic drinking water improvements to lower income families in distressed rural communities. About \$1.3 billion in loans and grants have been committed to 1,000 high priority safe drinking water projects over the last 3 fiscal years.

President's National Partnership for Homeownership. The goal of this interdepartmental initiative is to help 8 million new families become homeowners by the year 2000. A major focus is to help more rural women become homeowners.

Bringing the Information Superhighway to Rural America. As part of the Administration's efforts to help create the Information Superhighway, USDA (primarily through the Rural Utilities Service) is taking steps to ensure that rural areas are "connected" to advanced telecommunications technologies and the information they bring.

Alternative Agricultural Research and Commercialization Corporation. This corporation operates essentially as an autonomous organization, making equity investments in rural businesses to assist in technological development and commercialization of industrial (nonfood, nonfeed) uses for agricultural and forestry materials and animal byproducts. It received \$7 million in Federal funds in 1998.

North American Development Bank (NADBank)/Community Adjustment and Investment Program (CAIP). Through the Business and Industry Guaranteed Loan Program, the CAIP provides credit to businesses in communities in the United States that are evidencing significant job losses due to changes in trade patterns with Canada or Mexico after passage of the North American Free Trade Agreement. The goals of the CAIP are to assist private companies in creating and retaining job opportunities in impacted areas, leverage private sector business lending, and focus resources into the most significantly affected areas.

Armament Retooling and Manufacturing Support (ARMS) Initiative. Through a Memorandum of Understanding with the United States Army, the Business and Industry Guaranteed Loan Program is providing financial assistance to facilitate commercial firms' use of specified ammunition manufacturing facilities. RBS provides the programming and administrative services necessary and convenient to process applications for loan guarantees, the guaranteed repayment of the loans, and provides other services required to administer the ARMS Initiative Loan Guarantee program.

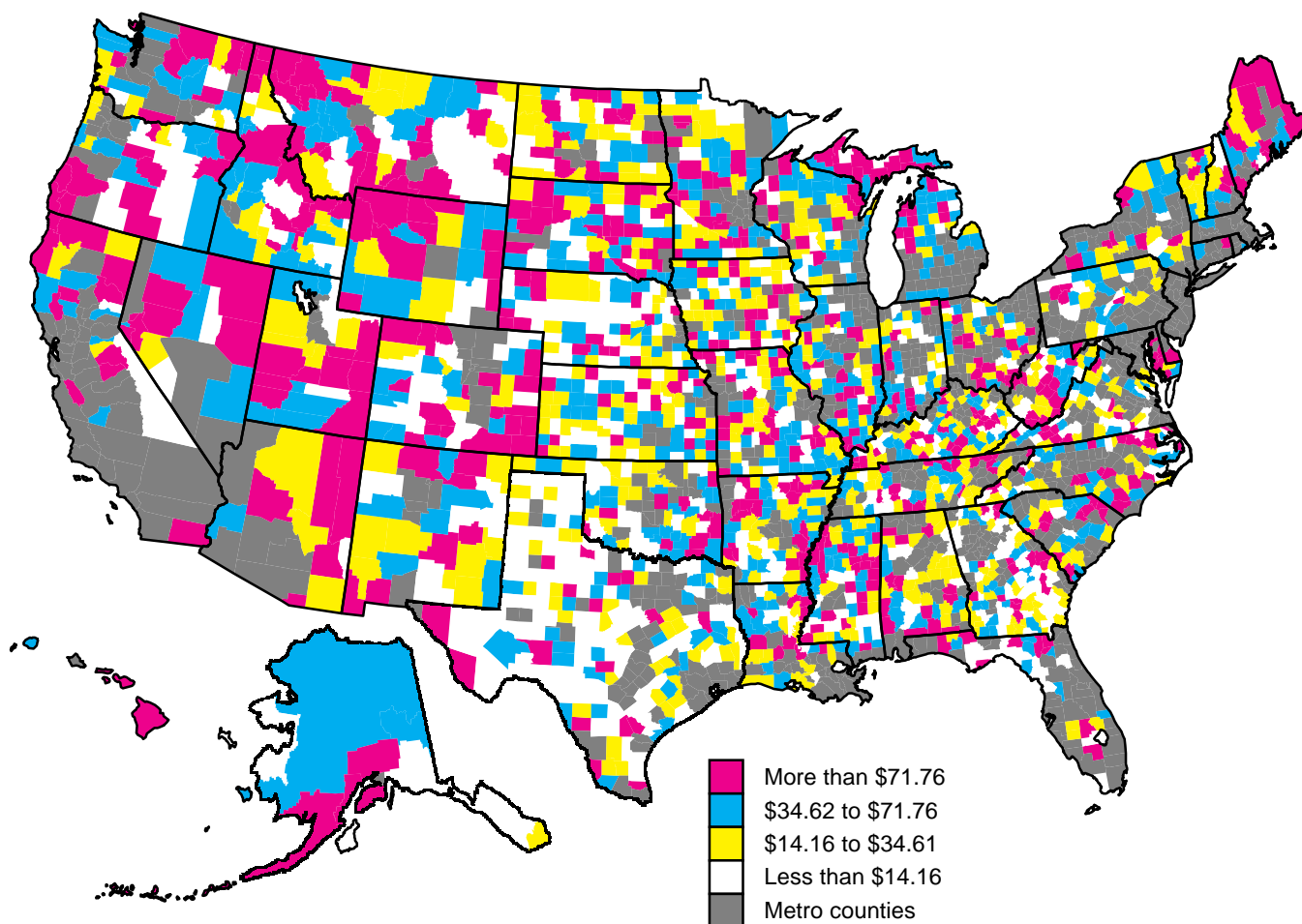
Delta Initiative. In 1996, the Rural Development Mission Area began this initiative to help address the needs of communities in the Lower Mississippi Delta region, one of the poorest areas in the United States. USDA awarded a contract for \$200,000 to the Housing Assistance Council (HAC) to work with the communities in the area to develop a strategy that (1) identifies successful projects building on existing plans and community efforts, (2) strengthens the capacity of nonprofit organizations to undertake community-based development work in the region, and (3) leverages capital to facilitate a long-term regional collaborative effort. With input from town meetings and consultations, HAC developed a strategic plan identifying barriers to economic growth and recommending actions that might overtake those barriers. A "Delta Compact" has been drafted as a living document committing resources of several Delta institutions to the priority projects identified in the strategic plan. To date, 12 organizations have committed resources to the region under the "Delta Compact."

Colonias Initiative. Through a collaboration of USDA's Rural Development Mission Area, the Bank of America, and the Ford Foundation, this initiative will provide assistance to extremely poor individuals with poor housing and lacking running water and sewer who live along the Mexican border. The primary objective is to design and implement two resident-led community development models that hold promise for producing lasting improvements in five selected Colonias in New Mexico, Texas, and Arizona. Secondary objectives include simplifying access to technical and financial services for comprehensive development strategies and identifying ways in which the Bank of America's regular, profit-oriented activities can be mobilized to encourage development in these communities. The partners have committed \$250,000 (\$50,000 per Colonia) for the first year, contracting with two intermediaries (the Housing Assistance Council, a national housing organization, and Valley Interfaith, a community-based organization in the region) to implement the demonstration.

Geographic Distribution of Program Benefits

Various factors affect the distribution of rural development program benefits, including eligibility and selection criteria, which may vary from program to program, and priorities,

Figure 3
USDA Rural Development mission program funding, per capita, fiscal year 1996
Most rural counties received some assistance from USDA's rural development programs



Note: Includes Rural Development mission programs with more than \$10 million funding in 1996; excludes electric and telecommunications programs.

Source: Calculated by ERS using Federal Funds data from the Bureau of the Census.

which may vary from State to State. Conditions and priorities will also change from year to year, affecting the geographic distribution. Although we do not have accurate county-level data for all of USDA's rural development programs, we do have data for most of the large programs belonging to the Rural Development mission area, including the main housing and business assistance programs and the water and waste disposal program (electric and telephone programs are excluded). When these are added together for allocations in 1996, including loans, guarantees, and grants, we see that much of rural America received at least some assistance, but the assistance varies significantly across the country (fig. 3).

Rural Development Efforts Elsewhere in USDA

The Rural Development Mission Area is not the only entity within USDA with rural development responsibilities and programs. Other agencies, including the Forest Service, the Natural Resources Conservation Service, and the Cooperative State Research, Education, and Extension Service, have rural development programs. These programs are discussed elsewhere in this report (see General Assistance). Other USDA agencies, such as the Economic Research Service, have programs of research or assistance that support rural development activities.

Finally, the recent USDA-wide sustainable development effort stands to significantly affect rural development. Sustainable development requires that short-term economic growth be consistent with long-term economic, institutional, and environmental developments so that it can be sustained over the long run. In September 1996, Secretary Glickman took steps to formalize the pursuit of sustainable development within USDA by appointing a Director of Sustainable Development and creating the USDA Sustainable Development Council. The director is charged with leading and coordinating cross-mission area work in sustainable development and representing the Department in both domestic and international arenas on sustainable development issues. The council, comprising representatives from each of the agencies and chaired by the director, serves as a forum for policy and program development, implementation, and evaluation on issues relating to sustainable development. It also provides a framework and mechanism for integrating across mission areas and program activities.

USDA Rural Development Mission Programs

Rural Utilities Service Programs

Water and Waste Disposal Loans

Purpose: To develop water and waste disposal (including solid waste disposal and storm drainage) systems in rural areas and towns with populations not in excess of 10,000. The funds are available to public entities, such as municipalities, counties, special-purpose districts, Indian tribes, and corporations not operated for profit. RUS also guarantees water and waste disposal loans made by banks and other eligible lenders.

Water and Waste Disposal Grants

Purpose: To reduce water and waste disposal costs to a reasonable level for rural users. Grants may be made for up to 75 percent of eligible project costs in some cases. The same types of applicants are eligible for grants as they are for loans.

Technical Assistance and Training Grants

Purpose: To make grants to nonprofit organizations to provide technical assistance and training to associations on a wide range of issues relating to the delivery of water and waste disposal service.

Solid Waste Management Grants

Purpose: To make grants to public and private nonprofit organizations for providing technical assistance and training to associations to reduce or eliminate pollution of water resources and improve planning and management of solid waste facilities. This assistance is available in rural areas and towns with a population not in excess of 10,000.

Emergency Community Water Assistance Grants

Purpose: To assist rural communities that have had a significant decline in quantity or quality of drinking water. Grants can be made in rural areas and cities or towns with a population not in excess of 5,000 and a median household income not in excess of 100 percent of a State's nonmetro median household income. Grants may be made for 100 percent of project costs. The maximum grant is \$500,000 when quantity or quality of water significantly declined within 2 years or \$75,000 to make emergency repairs and replacement of facilities on existing systems.

Rural Water Circuit Rider Technical Assistance

Purpose: To provide technical assistance for the operation of rural water systems. The RUS, through contracting, has assisted rural water systems with day-to-day operational, financial, and management problems. The assistance may be requested by officials of rural water systems or the RUS. The program complements RUS's loan supervision responsibilities.

Rural Electric Loans and Loan Guarantees

Purpose: To make insured loans and guarantees of loans to nonprofit and cooperative associations, public bodies, and other utilities. Insured loans primarily finance the construction of facilities for the distribution of electric power in rural areas. Guaranteed loans primarily finance generation and bulk transmission facilities for power supply borrowers.

Rural Telephone Loans and Loan Guarantees

Purpose: To make long-term direct loans to qualified organizations for the purpose of financing the improvement, expansion, construction, acquisition, and operation of telephone lines, facilities, or systems to furnish and improve telephone service in rural areas.

Rural Telephone Bank Loans

Purpose: To provide supplemental financing to extend and improve telephone service in rural areas.

Distance Learning and Medical Link Grants

Purpose: To encourage, improve, and make affordable the use of telecommunications, computer networks, and related technology for rural communities to improve access to educational and/or medical services. Maximum amount of grant is \$350,000.

Deferment on Loan Payments for Rural Development Projects

Purpose: To promote economic or community development by allowing RUS electric or telecommunications borrowers to defer insured or direct RUS loan payments equal to eligible investments.

Rural Housing Service Programs

Community Facilities Loans

Purpose: To construct, enlarge, extend, or otherwise improve community facilities providing essential services in rural areas and towns with a population of 20,000 or less. The funds are available to public entities, such as municipalities, counties, special-purpose

districts, Indian tribes, and corporations not operated for profit. RHS also guarantees community facility loans made by banks or other eligible lenders.

Homeownership Loans

Purpose: To aid low- and moderate-income rural residents to purchase, construct, repair, or relocate a dwelling and related facilities.

Rural Rental Housing Loans

Purpose: To allow individuals or organizations to build or rehabilitate rental units for low-income and moderate-income residents in rural areas.

Rental Assistance

Purpose: To reduce out-of-pocket cash that very-low-income and low-income families pay for rent, including utilities.

Home Improvement and Repair Loans and Grants

Purpose: To enable very-low-income rural homeowners to remove health and safety hazards in their homes and to make homes accessible for people with disabilities. Grants are available for people 62 years old and older who cannot afford to repay a loan.

Self-Help Housing Loans

Purpose: To assist groups of six to eight low-income families in helping each other build homes by providing materials, site, and the skilled labor they cannot furnish. The families must agree to work together until all homes are finished.

Rural Housing Site Loans

Purpose: To buy adequate building sites for development into a desirable community by private or public nonprofit organizations.

Farm Labor Housing Loans and Grants

Purpose: To enable farmers, public or private nonprofit organizations, and units of State and local governments to build, buy, or repair farm labor housing in either dormitory or multifamily apartment style.

Congregate Housing and Group Homes

Purpose: To provide living units for persons with low incomes and moderate incomes and for those age 62 or older.

Housing Preservation Grants

Purpose: To provide qualified public nonprofit organizations and public agencies with grant funds for effective programs to assist very-low- and low-income homeowners to repair and rehabilitate their homes in rural areas and to help rental property owners and co-ops repair and rehabilitate their units if they agree to make such units available to low- and very-low-income persons.

Rural Business-Cooperative Service Programs

Business and Industry Guaranteed Loan Program

Purpose: To improve, develop, or finance business, industry, and employment and improve the economic and environmental climate in rural communities, including pollution abatement and control. This purpose is achieved through bolstering the existing private credit structure through guarantee of quality loans that will provide lasting community benefits. The guarantee authority is not intended to be used for marginal or substandard

loans or to “bail out” lenders having such loans. This type of assistance is available only to businesses located in rural areas. The terms ‘rural’ and ‘rural area’ mean a city, town, or unincorporated area that has a population of 50,000 inhabitants or less, other than an urbanized area immediately adjacent to a city, town, or unincorporated area that has a population in excess of 50,000 inhabitants.

Business and Industry Direct Loan Program

Purpose: To improve, develop, or finance business, industry, and employment and improve the economic and environmental climate in rural communities, including pollution abatement and control. This purpose is achieved through loans that will provide lasting community benefits. Although there is a requirement that borrowers are not able to obtain credit from other lenders at reasonable rates and terms, it is not intended that the B&I Direct Loan authority will be used for marginal or substandard loans. This type of assistance is available only to businesses located in rural areas. The terms ‘rural’ and ‘rural area’ mean a city, town, or unincorporated area that has a population of 50,000 inhabitants or less, other than an urbanized area immediately adjacent to a city, town, or unincorporated area that has a population in excess of 50,000 inhabitants.

Intermediary Relending Program Loans

Purpose: To finance business facilities and community development projects not within the outer boundary of any city having a population 25,000 or more. This is achieved through loans made by RBS to intermediaries that provide loans to ultimate recipients for business facilities and community development projects in rural areas.

Rural Business Enterprise Grants

Purpose: To assist public bodies and nonprofit corporations to finance and facilitate development of small and emerging private business enterprises located in rural areas. The terms ‘rural’ and ‘rural area’ mean a city, town, or unincorporated area that has a population of 50,000 inhabitants or less, other than an urbanized area immediately adjacent to a city, town, or unincorporated area that has a population in excess of 50,000 inhabitants.

Rural Business Opportunity Grants

Purpose: To assist public bodies, nonprofit corporations, Indian tribes, and cooperatives for planning, technical assistance, entrepreneurial training and leadership, and the creation of business support centers. A proposed rule defining program eligibility criteria was published in the Federal Register on February 3, 1998.

Rural Economic Development Loans and Grants

Purpose: To promote rural economic development and job creation projects through loans to RUS electric and telecommunication borrowers, including funding for project feasibility studies, startup costs, incubator projects, and other reasonable expenses for the purpose of fostering rural development. Maximum amount of grant or loan is \$375,000 and \$750,000, respectively. Maximum term of loan is 10 years at zero-interest rate.

Cooperative Service

Purpose: To promote the understanding and use of the cooperative form of business as a viable option for agricultural producers and other rural residents. To foster and support the cooperative business form. To provide knowledge to improve the effectiveness and performance of the Nation’s cooperative business.

Rural Cooperative Development Grant Program

Purpose: To establish and operate centers for rural cooperative development. To improve economic conditions of rural areas by promoting development and commercialization of new services, products, processes, and enterprises.

Office of Community Development Programs

Rural Empowerment Zones/Enterprise Communities

Purpose: To revitalize rural communities in a manner that attracts private-sector investment and thereby provides self-sustaining community and economic development. A total of 33 Round I rural Empowerment Zones (EZ's) and Enterprise Communities (EC's) were designated in December 1994 and their benefits consisted of tax incentives and title XX Social Service Block Grants. Five Round II rural EZ's will be designated in 1998. To date, benefits include tax incentives, but no grants have yet been allocated. *[Tom Rowley, formerly with ERS; and Rick Reeder, 202-694-5360, rreeder@econ.ag.gov]*